

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
INDUSTRIAL DEVELOPMENT REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY			
Applicant:	KAKS Properties, LLC and Hydro Systems, Inc. (jointly, the Borrowers)	Amount Requested:	\$2,500,000
Applicant Description:	Hydro Systems, Inc. (individually, the Operator) is a manufacturer of acrylic and gel-coat whirlpool bathtubs, soaker bathtubs, freestanding bathtubs, bathtubs skirts, laundry sinks, shower pans, institutional showers and parts.	Date of Board Meeting:	September 21, 2010
		Resolution Number:	10-31
		Type of Bonds:	Refunding and New Issue
Project Site:	29132 Avenue Paine, Valencia CA 91355, within the County of Los Angeles	Prepared by: Derrick Moore	
Project Description:	The project (Project) involves (a) financing the purchase and installation of a solar panel system on the manufacturing facility located at 29132 Avenue Paine, Valencia CA and (b) refinancing of the outstanding California Infrastructure and Economic Development Bank Variable Rate Demand Industrial Development Revenue Bonds, Series 2003 (Hydro Systems, Inc. Project), the proceeds of which were used to finance the acquisition of the real property and improvements at project site and the acquisition and installation of manufacturing equipment.		
Uses of Bond Proceeds:	Bond proceeds will be used to pay the cost of the Project, including certain financing costs and issuance costs of the bonds.		
Public Benefits:	An estimated 10 full time jobs are expected to be created within two years of Project completion. Installation of the solar panel system will reduce the Operator's electricity consumption by 70% resulting in estimated savings of \$80,000 to \$100,000 annually.		
Financing Structure:			
Type of Issue:		Publicly-offered variable rate securities in denomination of \$100,000 or any integral multiple of \$5,000 in excess thereof.	
Tax Status:		Tax-exempt Industrial Development Revenue Bonds.	
Term:		Not to exceed 25 years.	
Security:		Direct-pay letter of credit issued by Comerica Bank.	
Credit Rating:		The bonds are expected to be rated "A/F1" by Fitch Ratings based on the letter of credit and financial strength of Comerica Bank.	
Est. Sources of Funds:		Est. Uses of Funds:	
Par Amount of Series A	\$960,000	Acquisition & Installation of New Equipment	\$2,014,025
Par Amount of Series B	1,540,000	Costs of Issuance	106,675
U.S. Gov't Solar Energy Grant	524,025	Refund Series 2003 Bonds	960,000
Equity Contribution			
TOTAL SOURCES	56,675		
	\$3,080,700	TOTAL USES	\$3,080,700
Financing Team:			
Bond Counsel:		Kutak Rock, LLP	
Underwriter:		Comerica Bank	
Trustee:		Wells Fargo Bank, National Association	
Financial Advisor:		Access to Capital, LLC	
Staff Recommendation:			
Staff recommends approval of Resolution 10-31 for an amount not to exceed \$2,500,000 for KAKS Properties, LLC and Hydro Systems, Inc.			

APPLICANTS BACKGROUND AND HISTORY

KAKS Properties, LLC was formed in California on January 31, 2003 and is the owner of the property located at 29132 Avenue Paine in Valencia, CA.

Hydro Systems, Inc. is a manufacturer of acrylic and gel-coat whirlpool bathtubs, soaker bathtubs, free standing bathtubs, bathtub skirts, laundry sinks, shower pans, institutional showers and parts. Major customers of the Hydro Systems, Inc. include Ferguson Enterprises, The Plumbers Warehouse, Pacific Sales, and HD Supply. Formed in California on March 21, 1983, the company has grown in size from 85 to 105 employees over the past 5 years and has experienced an average sales growth of 10 to 12% per year from 2004 to 2008.

In 2003 KAKS Properties, LLC purchased the property using proceeds of the Series 2003 Bonds. KAKS Properties, LLC currently leases the property to Hydro Systems, Inc.

PROJECT DESCRIPTION

The bond proceeds from the issuance of the California Infrastructure and Economic Development Bank Variable Rate Demand Industrial Development Revenue Bonds (Hydro Systems, Inc. Project) Series 2010A will be used to redeem the outstanding principal amount (currently \$960,000) of the California Infrastructure and Economic Development Bank Variable Rate Demand Industrial Development Revenue Bonds, Series 2003 (Hydro Systems, Inc. Project). These bonds were originally issued June 13, 2003 with a par amount of \$4,960,000 to finance the purchase of the 84,000 square foot building and 210,000 square feet of land where Hydro Systems, Inc. operates its manufacturing business and to finance the acquisition and installation of manufacturing equipment at that location.

The bond proceeds from the issuance of the California Infrastructure and Economic Development Bank Variable Rate Demand Industrial Development Revenue Bonds (Hydro Systems, Inc. Project) Series 2010B will be used to purchase and install photovoltaic solar panel modules, which will be mounted to the roof of the existing manufacturing facility (See Appendix A – Project Pictures). The modules contain no moving parts and are fixed to the building with a mounted structure that tilts the panels about 5 degrees. The system is a net metered, grid connected system and is set to produce roughly 635,000 KWh annually. The system is designed to offset approximately 70 percent of the historic annual electricity usage at the facility. Installation will take approximately 12 to 16 weeks.

FINANCING STRUCTURE

The Project cost will total \$3,080,700, of which \$2,500,000 will be financed by tax-exempt bond proceeds (Bonds), \$524,025 by a U.S. Government Solar Energy Grant of up to 30% of solar energy improvement cost and \$56,675 from the Borrowers' equity. The bond proceeds will be loaned to the Borrowers pursuant to a loan agreement (Loan

Agreement) between the I-Bank and Borrowers. The Bonds will be secured by an irrevocable, direct-pay letter of credit issued by Comerica Bank. Collateral for the direct-pay letter of credit will be a first trust deed on the property and the guarantee of Hydro Systems, Inc. It is expected that the Bonds will carry a rating of "A/F1" from Fitch Ratings based on the letter of credit and the financial strength of Comerica Bank. The I-Bank's principal and interest due for the Bonds shall be paid solely from the revenues to be received from the Borrowers' payment of their obligation under the loan agreement and draws on the letter of credit.

In no event shall the Bonds constitute a pledge of faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Bonds. The Bonds constitute a special obligation of the I-Bank payable solely from revenues consisting of repayments of the loan provided for in a loan agreement between the I-Bank and the Borrowers.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE SCORING/PUBLIC BENEFITS

The Project received private activity bond allocation from California Industrial Development Financing Advisory Commission (CIDFAC) on August 25, 2010, receiving 25 points based on CIDFAC's scoring criteria summarized below:

SCORING

EVALUATION SCORING		
Point Criteria	Maximum Points Allowed	Points Scored
Community Economic Need:		
1. Unemployment Rate of Project Area	10	0
2. Poverty Rate of Project Area	5	0
3. Special Designation Area	5	0
4. Median Family Income of Project Area	5	0
Job Creation Ratio	35	10
Job Retention	10	0
Average Hourly Wage	10	0
Welfare to Work Program Participation	5	0
Workforce Training	5	0
Exports Outside California	5	5
Health Care Benefits	15	0
Payment of Retirement Benefits	5	0
Land Use	3	0
Public Transit Corridor	4	0
Energy Efficiency	15	10
Manufacturer of Certified Environmentally Preferable Products	5	0
Leveraging	5	0
Total Points	147	25

DESCRIPTION OF PUBLIC BENEFITS

- Total number of new jobs to be created and jobs to be retained within two years of project completion:**
 Hydro Systems, Inc. anticipates hiring 10 new full time employees within two years of Project completion.
- Exports Outside California:**
 Hydro Systems, Inc. exports more than 30 percent of the products manufactured at the facility outside of California. During 2009, 46 percent of manufactured products were exported.
- Energy Efficiency and Renewable Energy:**
 Hydro Systems, Inc. estimates that the installation of solar panels will provide a 70 percent reduction in its electricity consumption resulting in an estimated savings of \$80,000 to \$100,000 annually.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA:	08/17/2010 and 09/09/2010
Publications:	<i>The Signal Newspaper</i> <i>The Sacramento Bee</i>
Any Oral/Written Comments:	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Legal Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. The Project is within the State of California. 2. Borrowers are capable of meeting their joint obligation incurred under the proposed Loan Agreement, and, in particular as to the repayment obligations which secure the bonds, based upon Borrowers' ability to satisfy the requirements imposed by Comerica Bank to the issuance of the direct-pay letter of credit, which is the basis for the anticipated rating on the Bonds. 3. Payments to be made by Borrowers to the I-Bank under the proposed Loan Agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments on the Loan. 4. The proposed financing is appropriate for the Project. 5. The Borrowers have represented that the facilities are consistent with any existing local or regional comprehensive plans.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
INDUCEMENT CERTIFICATE	
Completed	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES Certificate No.: C-10-0001 <input type="checkbox"/> N/A Date: July 23, 2010

RECOMMENDATION

Staff recommends approval of Resolution 10-31 for an amount not to exceed \$2,500,000 for KAKS Properties, LLC and Hydro Systems, Inc.

APPENDIX A – PROJECT PICTURES



Project site located at 29132 Avenue Paine, Valencia CA.



Examples of installed photovoltaic solar panel modules. This is not the actual project site.